STANDARD & POOR'S
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McGRAW HILL FINANCIAL

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Hawaii; Appropriations; General Obligation

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Credit Profile		
US$497.425 mil GO rfdg bnds ser EV-EZ due 06/30/2029		
Long Term Rating	AA/Stable	New
US$190.0 mil GO bnds ser ET due 06/30/2036		
Long Term Rating	AA/Stable	New
US$35.0 mil GO bnds ser EU due 06/30/2036		
Long Term Rating	AA/Stable	New
US$1.855 mil GO bnds ser FA due 06/30/2036		
Long Term Rating	AA/Stable	New
Hawaii GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Hawaii's following planned bond issues:

- $497 million series EV, EW, EX, EY, and EZ general obligation (GO) refunding bonds;
- $190 million series 2015 ET GO bonds;
- $35 million series 2015 EU GO (green) bonds; and
- $25 million series 2015 FA taxable GO bonds.

At the same time, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on Hawaii's GO bonds and our 'AA-' long-term rating on the state's certificates of participation (COPs), reflecting our view of appropriation risk.

The 'AA' GO rating reflects our view of:

- The state's strong financial position, which weathered several major economic stressors during the past 10 years -- including the Great Recession;
- Strong liquidity, particularly when including pooled cash balances available to the general fund for temporary interfund borrowing;
- The prioritizing of contributions to the retiree health care benefits system, resulting in a lowering of actuarial estimates of the state's long-term liability;
- Management's well-established, proactive budget monitoring practices, including frequent revenue forecast updates from the independent Council on Revenues (COR), which facilitates prompt identification of potential budget adjustments for budget alignment;
- The governor's executive authority to restrict all executive branch expenditures through such actions as cutting spending midyear without legislative approval or cutting or delaying disbursements during the course of a fiscal year; and
- Other strong constitutional protections, including requiring budget balance, that allow for tax increases with legislative approval and give GO bonds first-lien priority before all other disbursements.

Partly offsetting the above strengths is our view of:

- Hawaii's inherent susceptibility to exogenous shocks that have potential to hurt its tourist sector, which accounts for 17% of state GDP;
- The low-funded status of the state's retirement system and generally higher-than-average debt ratios because of the state's centralized provision of public sector services; and
- Large, other postemployment benefit (OPEB) liability although a 2013 statutory requirement will increase annual contributions until fiscal 2019, when they would equal the actuarially recommended level.

All GO bonds are secured by Hawaii's full faith and credit, which the state considers the highest priority in payment according to its constitution. None of the refunding bonds include later maturity dates than the existing debt to be refunded.

Hawaii's tax revenue growth seems to be back on-track after pausing a bit in fiscal 2014. That year, not only did tax revenues fall short of the state's independent Council on Revenues' (COR) May 2013 forecast of 8.0% growth, they actually shrank 1.8% (following increases of 15% and 9.9%, respectively, in the two previous years). Revenues resumed a growth trajectory in fiscal 2015, increasing by 6.8%. Stronger revenue trends contributed to improvement in the state's ending balance, which had dipped by $179 million to $664.8 million in fiscal 2014, but then increased to $828.1 million in fiscal 2015. Together with the $90.2 million in its emergency and budget reserve fund (EBRF) and $182.4 million in its Hawaii hurricane relief fund (HRF), the state ended fiscal 2015 with combined reserves of $1.1 billion, or17.2% of expenditures, which we view as very strong.

In September, the COR revised its prior revenue forecast for fiscal 2016 up to 6.0% growth from 2.7%. But it simultaneously lowered its fiscal 2017 growth forecast to 5.5% from 6.4%, an adjustment that contributes to the state's projected operating deficit that year. The September forecast projects that general fund revenues will reach $7.2 billion in fiscal 2017, which is lower than what the COR forecasted in 2013 ($7.6 billion). On other hand, expenditures -- which are budgeted at $7.58 billion in fiscal 2017 -- are somewhat above what the state's 2013 financial projections anticipated ($7.48 billion). Similarly, and in a reflection of its view of the effect that demographic changes will have on its economy and that a cyclical U.S. economic downturn is inevitable at some point, the COR's longer-term revenue growth forecast is lower, in the range of 4.5% to 5.0%.

Notwithstanding the longer-term, Hawaii's financial position has improved this year thanks to a strengthening visitor industry, which enjoyed a fourth consecutive year of record-setting visitor arrivals. Total visitor expenditures in 2015 have increased 3.8% from 2014 and have grown by 40% compared with 2010. Revenue per available room was up by 8% in 2015 and has grown by 63% since 2010. These trends, along with consistently high occupancy rates suggest the state's key industry, leisure and hospitality (which makes up 18.1% of Hawaii's employment base versus 10.1% for the nation) is currently healthy. In our view,strength in the tourist sector has contributed to pushing down Hawaii's unemployment rate to 3.5% as of August, well below 4.5%, which the state's economist considers to be Hawaii's natural jobless rate.

Recently, however, a strong U.S. dollar and flagging U.S. consumer confidence has weighed on the pace of improvement in the various trends throughout the visitor industry. Some of the strongest gains occurred from 2011 through 2013, with more incremental improvement since then. Relative to the U.S. as a whole, personal income in Hawaii has slid slightly, to 100% from its prior level that was somewhat above that of the U.S. State GDP, the broadest measure of the state's economy, suggests that Hawaii remains stuck in a slow growth mode, as it has expanded more slowly than national GDP for six consecutive years. Nevertheless, the state's economy has proved relatively resilient to exogenous shocks (i.e., the Sept. 11 terrorist attacks, the SARS epidemic). Still, we view Hawaii's economy as having some unique vulnerability to unanticipated shocks originating from external events.

Looking ahead, we believe the persistent trend of a strengthening U.S. dollar, especially vis-à-vis the Japanese Yen presents a risk to Hawaii's economy. Visitors from Japan make up 17.8% of arrivals, making it easily the second most significant source of origination, behind only the U.S. mainland, which still constitutes the majority at 61.8%. The state's tourist base is diversifying, however, with arrivals from Canada having almost doubled since 2006. Likewise, visitors from China have increased more than three-fold. As with Japan, however, we see potential for some softening ahead when it comes to tourists from Canada and China. Despite having increased visitors from these two countries -- both of which have entered weaker economic patches -- they still represent a combined and relatively minor 8.2% of total arrivals through the past 12 months.

Hawaii's economy is also subject to changes in federal spending. The federal government accounted for 12.9% of state GDP in 2013 according to the Bureau of Economic Analysis. More than half of federal spending in the state is military related, making Hawaii's economy susceptible to cutbacks under the federal Budget Control Act of 2011 (BCA). Most significantly, the BCA's sequestration has translated to $400 million in reduced military contracts being awarded in Hawaii (to $2.0 billion from $2.4 billion). But even with the federal spending cuts, Hawaii remains home to a record number of military personnel (51,045 in 2014). And regardless of federal contract inflows, the number of the military personnel has not only held steady, it has increased. The incomes of these personnel and households have a stabilizing influence on the rest of the state economy, in our view.

The state's real estate market is healthy with low foreclosure rates (just 0.02% in Honolulu, which is 70% of Hawaii's real estate market) and rising home prices. Indeed, a chronic shortage of housing relative to demand keeps upward pressure on home prices throughout the state. Whereas Hawaii saw roughly 6,000 new housing units per year constructed throughout the 1980s, the number has fallen to approximately 2,000 to 3,000 in recent years. In our view, construction trends in the 1980s likely reflected unsustainably strong demand from Japanese investors at that time. State officials attribute the more recent slower construction trends to increased environmental, zoning, and permitting process rules.

Although Hawaii's debt burden of $6.27 billion of tax-supported state GO, COP, and highway (gas tax) debt is high in our view, translating to $4,420 per capita, it reflects the centralized nature of state and local government in Hawaii. Hawaii's debt level stands out as high relative to other states in part because the state assumes numerous functions that are performed at the local level in other states.

Based on the analytic factors we evaluate for states, we have assigned Hawaii a composite score of '1.9' on a four-point scale in which '1' is strongest.

Outlook

We have assigned a stable outlook to Hawaii's rating. Central to our outlook regarding the state's very strong credit quality is its financial management and demonstrated commitment to building and maintaining strong reserve levels.

We view this as important given the state's slow economic growth in recent years and several economic threats to growth going forward. Among these are the potential effects of a strong U.S. dollar and weakening economic performance in Canada and China. In our view, by building up strong reserve balances, state officials have prudently acknowledged the risks these and other potential negative developments could have on Hawaii's finances. But taken together, these characteristics, slower economic growth than the nation in recent years, emerging risks on the horizon, and the projection of some degree of structural budgetary imbalance in fiscal 2017 preclude us from viewing the state's creditworthiness as consistent with a higher rating at this time.

The main downside risk we see to the state's rating, therefore, stems from the potential for economic underperformance that could lead to a larger-than-expected gap in fiscal 2017. We believe the state's rating can withstand most reasonable downside scenarios, however, given its reserve position.

On the other hand, we believe Hawaii is currently laying a foundation for a potentially higher rating in the future due to its pension and OPEB reforms. The state's adherence to new legislation requiring escalating annual OPEB contributions and its plan to increase its reserves will be important indicators of the state's follow through on both fronts. In fact, funding these priorities contributes to its projected operating deficit in fiscal 2017. We view the state's inclusion of these expenses in its multiple-year fiscal plan as favorable. Insofar as Hawaii can accomplish its key objectives on the liability front while maintaining strong reserves and a balanced budget structure, its rating could improve. However, this will remain difficult, in our view, if the state's economy continues growing at a slower rate than that of the nation. As with other states, much of the above is likely to hinge on the economy -- both nationally and within the state -- and on revenue performance.

Governmental Framework

Hawaii's constitution requires that the state operate on a balanced budget, including on an intra-year basis, as it monitors revenues and expenditures throughout the year and makes necessary adjustments to ensure that general fund expenditures do not exceed current general fund revenues and unencumbered cash balances. There are no constitutional restrictions on the state's ability to raise taxes or other revenues, but property tax authority rests with the counties. Approval of taxes is by simple majority vote of the legislature, and the legislature has broad legal latitude to adjust spending levels. The governor has authority to restrict all executive branch expenditures and to cut spending midyear without legislative approval via such methods as cutting or delaying spending on education, but in practice this is politically difficult.

Hawaii is not a voter-initiative state, and no vote is required to issue GO bonds or for tax increases. GO bonds in Hawaii have a first-lien status, prior to all other payments, and the issuance of GO bonds must be authorized by a majority vote of the legislature.

The Hawaii state government is highly centralized, and, as such, the level of assistance to local governments is high. The state directly runs the public school system, as well as the university and community college systems. It also administers the public welfare system and operates prisons, harbors, and airport systems. The county functions are primarily property related (police, fire, streets, water, sewer, and parks). That being said, Hawaii is less exposed to fiscal pressures from rising health care and Medicaid costs than are most states. Hawaii's Prepaid Health Care Act of 1974 effectively mandates that employers provide health care coverage for any employees that work 20 hours or more per week. This has resulted in historically high rates of health care coverage in Hawaii. The transition to complying with the Federal Patient Protection and Affordable Care Act has, therefore, been more incremental in Hawaii than in most states. Indeed, in fiscal 2013, Medicaid represented about 14.4% of total state expenditures in Hawaii versus 24.5% on average for all states, according to the National Assn. of State Budget Officers.

On a four-point scale in which '1' is the strongest, we have assigned a score of '1.7' to Hawaii's governmental framework.

Financial Management

Financial Management Assessment (FMA): Strong

We consider the state's management practices "strong" under our FMA methodology. An FMA of strong indicates our view that practices are strong, well embedded, and likely sustainable. Among the highlights of the state's management techniques are statutorily required six-year operating and capital budgets that are updated by the governor and finance staff annually for legislative approval. The COR provides quarterly revenue forecasts for inclusion in the biennial budget, budget updates, and the multiyear financial forecast. State finance staff identifies budget variances throughout the year, and the governor is empowered to curtail expenditures without legislative approval, if required. The finance staff and treasury adhere to an official investment policy, and investment performance is disclosed monthly. There are statutory debt caps, including a calculation to ensure that the total amount of debt service payments required will not cause the state to exceed its debt limit of 18.5% of the average of three prior years general fund revenues. The State Constitution requires that all state debt begin to amortize principal within five years of issuance, mature within 25 years, and have either level debt service or level principal payments. State law disallows the use of swaps or other derivative products. The legislatively created emergency and budget reserve fund (EBRF) fund provides for a small, controlled emergency fund, but there is no formal or informal target or policy for the size of this reserve or for the state's generally accepted accounting principal unreserved fund balance.

Budget management framework

COR, a seven-member, independent revenue forecasting body, prepares revenue forecasts at least quarterly, but also in special sessions when fiscal conditions warrant. The executive branch and legislature are required to consider the council's estimates in the budget process. Should they use a different forecast, this development and the rationale must be publicized.

Spending is controlled through an allotment system, and the Hawaii Department of Budget and Finance monitors expenditures throughout the year. Budget adjustments are implemented periodically throughout the fiscal year as the state deems necessary. Restrictions can be implemented at any time but are usually imposed at the beginning of the fiscal year. Adjustments requiring legislative action are handled during the legislative session, which begins shortly after the start of the third quarter; in extraordinary circumstances a special legislative session may be called. The governor has unilateral authority to restrict executive branch spending. Legislative approval is required to authorize spending, to impose new taxes, or to increase existing taxes.

Beginning with the 2012-2013 biennium, the state has demonstrated willingness to provide timely -- and structural -- budget solutions when confronting previously projected budget deficits. As described above, the enacted deficit-closing solutions have been mostly structural. Deficits are not carried forward, but soft revenue performance and an expiration of the previous solutions contribute to a projected shortfall of revenue compared with baseline spending trends, necessitating either adjusted service levels or enhanced revenues for the upcoming biennium.

On a four-point scale in which '1' is the strongest, we have assigned a score of '1' to Hawaii's financial management.

Economy

We anticipate Hawaii's economy to produce slow, but relatively steady growth in the upcoming years. Since 2000, total personal income in the state has grown faster than the nation, at a 4.5% compound average growth rate versus 3.9%. On a projected basis, our forecast, based on IHS Connect modeling, looks for growth of 3.9% in 2015 and 2016 with growth staying below 5% through 2018.

State GDP, on the other hand, has been growing more slowly than U.S. GDP, and the gap has widened more recently. Over the past 10 years, state GDP grew in real terms at an average annual rate of 1.45%, which is just slightly below the average U.S. annual rate of GDP growth of 1.49%. In the past five years, state GDP increased at 1.56%, on average, versus the U.S., which increased at 2.05%. In 2014, Hawaii's GDP increased just 0.8%, well below the 2.4% rate of growth for the nation.

Sluggish GDP growth notwithstanding, population growth rates have been above average. During the past 10 years, Hawaii's population has increased 1.09% per year, on average, versus 0.86% for the nation. However, the population is growing older, which has pushed up the state's age-dependency ratio to 60.1% from 58.4%. This puts the state in a somewhat weaker demographic position, in our view, than the nation as a whole, which has a ratio of 59.8%.

As of 2014, per capita personal income is 100% of the nation. It's been common for Hawaii's unemployment rate to be lower than the nation's. As of August 2015, the state's 3.5% jobless rate was well below that of the nation, which was 5.1% at the time. Tourism will likely always be an important part of Hawaii's economy -- but to a lesser degree than in the past. Whereas various elements of the tourism industry accounted for 33% of state GDP in 1988, now it's only 17%.

Although the state's COR now anticipates the visitor industry will proceed at a slightly reduced pace, it continues to expect the construction sector to pick up much of the slack. That's why the more tempered activity in the construction sector since late 2013 poses a risk to the state's rate of overall economic growth.

Home prices and the cost of living are high in Hawaii relative to the nation, but the state's real estate sector proved considerably more stable than it did in most of the rest of the nation during the recession. Unlike many markets throughout the U.S., Honolulu's housing market (70% of Hawaii's real estate market) decline during the Great Recession was only moderate, roughly 11% from peak (in 2006) to trough (in 2009), according to the state. This compares to a 31.5% decline in home prices nationally during the same time period (the national measure is according to the Standard & Poor's/Case-Shiller Home Price Index). We attribute the better performance of Honolulu's -- and by extension, the state's -- housing market throughout the recession to the fact that the five state-headquartered banks originate most of the home mortgages in Hawaii and, during the middle 2000s, refrained from heavy subprime lending. The state reports that Honolulu city and county rates of foreclosures are well below national averages and below those of comparable metropolitan areas around the country.

Construction activity has tended to correlate with job growth during the past several years. Housing starts, after dipping by 15.1% in 2011, followed by a 5.6% increase in 2012, rebounded with a 25.5% increase in 2013. But they then slid back in 2014, with a 20% decline in new housing starts, according to IHS Connect.

On a four-point scale in which '1' is strongest, we have revised our score of Hawaii's economy to '2.0' from '1.6'.

Budgetary Performance

After having used a significant portion of its EBRF and HHRF ("rainy day reserves") during and in the aftermath of the Great Recession, Hawaii has commenced rebuilding these balances. After four consecutive annual increases in ending balances, fiscal 2014 marked the first year in which the balance declined, albeit modestly. Combined ending and rainy day fund balances as of June 30, 2014, were $875 million, down from $889 million in fiscal 2013. Combined balances once again increased in fiscal 2015, to $1.1 billion. According to the general fund financial plan, which is built on COR forecasts, the outlook is for fiscal performance to soften somewhat, however. At this time, the state's fiscal 2017 ending balance plus rainy day funds are projected to be $775 million, or 10.2% of expenditures. This is up from the state's 2014 projection, which showed balances dropping to $405.7 million, or 5.8% of expenditures. Two consecutive administrations have made building and maintaining Hawaii's budget reserves a priority. State finance officials have indicated that the administration is committed to targeting maintaining budget reserves equal to 10% or more of general fund revenues, which we view favorably.

Liquidity

At the end of fiscal 2014, cash and equivalents across all governmental funds totaled $334 million, or 6.6% of general fund expenditures. Cash is monitored on a daily basis, with daily reports reflecting the state's investment positions. The state forecasts its liquidity needs on a one-year-forward basis, including recurring and known expenditures (debt service payments and payroll), and makes investments to provide liquidity on those dates. Annual cash flow is generally predictable although the state has made several downward revisions of forecast revenue growth following the recession. The state monitors and manages its disbursements with greater-than-average scrutiny to provide for positive general fund balances at fiscal year-end. The state has the statutory ability to borrow internally with the approval of the director of finance. The state has not done any external borrowing for cash flow purposes; it is permitted to issue GO bonds to fund a deficit but never has.

Audited financial statements

Audited fiscal results for 2014 published in the state's comprehensive annual financial report (CAFR) indicate that general fund tax revenues declined by 2.3%, following 2013 and 2012, when tax revenues grew 8.2% and 12.2%, respectively. As with most states, Hawaii's tax revenues proved sensitive to the effects of the Great Recession, when the state had two years of consecutive revenue declines, of 9.7% in fiscal 2009 and 0.69% in fiscal 2010. Revenues for fiscal 2014 consisted primarily of the general excise and use taxes (approximately 52% of revenues) and the individual and corporate income tax (approximately 36%). Education expenditures (including kindergarten through grade 12 and higher education) accounted for 50% of expenditures, followed by human services and health-related expenditures, which totaled 31%. The audited combined ending assigned and unassigned fund balance in fiscal 2014 was $1.34 billion, or 26% of expenditures. The balance represents a modest decline from fiscal 2013, when it was $1.43 billion, or 31% of expenditures. Both years are up considerably from fiscal 2012, when it was $807 million, or 17.5% of expenditures.

We believe the state's reserve position is strong although slightly less liquid than at the end of fiscal 2012 given the changes in the state's cash position. At the end of fiscal 2014, general fund cash was $114 million, down from $238 million at the end of fiscal 2012.

The EBRF, created by the legislature in 1999, is normally funded from 15% of tobacco settlement funds. However, this revenue was diverted to the state general fund during fiscal years 2012 and 2013. Pursuant to state statutes, Hawaii's general fund plan resulted in $55.5 million of deposits into the HHRF in each of fiscal years 2014 and 2015. The deposit was made in fiscal 2014 and has already been deposited for fiscal 2015 as well. At the governor's request, the legislature agreed to additional supplemental EBRF and HHRF deposits of $50 million each in fiscal 2014. Across two consecutive administrations, the state's commitment to replenish these funds remains intact and is a departure from earlier plans to allow the reserves to become -- and stay -- depleted. We believe replenishing these funds could contribute to a strengthening of the state's credit quality.

On a four-point scale in which '1' is strongest, we have revised our score of Hawaii's budgetary performance to '1.4' from '1.9'.

Debt And Liability Profile

Issuance of GO bonds must be authorized by a majority vote of the legislature, and each year, the GO authorization bill authorizes the aggregate amount of GO bonds that may be issued to finance capital improvement projects. The bill also contains a calculation to ensure that the total amount of debt service payments required will not cause the state to exceed its debt limit of 18.5% of the average of the preceding three years' general fund revenues. The state constitution requires that all debt begin to amortize principal within five years of issuance, mature within 25 years, and have level debt service payments. State law disallows the use of swaps or other derivative products.

Hawaii's debt ratios, as of June 30, 2014 (the most recent CAFR), on a per capita and percentage basis were high in our view, with direct state debt approximately $6.27 billion, or $4,420 per capita, 9.6% of total state personal income, and 8.1% of state GDP, among the highest of all the U.S. states. Hawaii's high per capita debt is attributable to the state's assumption of many functions that, in other states, are generally financed by local governments, including education, health, and welfare. Debt levels, however, rose rapidly during the 1990s as the state shifted from pay-as-you-go capital spending to GO bonds. However, debt amortization is rapid with 67% of principal repaid in 10 years and 100% repaid in 20 years. Total annual tax-supported debt service (GO bonds, appropriation-backed debt, and the state highway fund) equaled $752 million in fiscal 2014, or about 12.4% of the expenditures from the general and state highway funds, which we consider high.

Pension liabilities

Pension benefits are administered by the Employees' Retirement System (ERS) of the State of Hawaii, which began operation on Jan. 1, 1926. The system is a cost-sharing, multiple-employer, defined-benefit pension plan that covers all regular employees of the state and each of its counties, including judges and elected officials. The system covers 115,350 active and retired beneficiaries as of June 30, 2013, up from 113,282 in 2012 (beneficiaries totaled more than 118,000 by March 2014). The ERS has yet to publish its CAFR according to the new GASB statement 68, but it has allocated the system assets and liabilities among its employer participants. Although it has not published its net pension liability at this time, of the ERS' total $8.58 billion unfunded actuarial accrued liability (UAAL), the state has reported that 75% belongs to the state. As of fiscal 2014, therefore, and considering just the state's 75% share of the ERS liability, the per capita UAAL is $4,532 and 9.9% of total personal income. These ratios remain high in our criteria but are down from the prior year when we calculated them based on the entire system UAAL.

ERS' total actuarially accrued liability of $22.2 billion is 61.4% funded based on the system's $13.6 billion in assets (valued on an actuarial basis) as of June 30, 2014. The state's pension reforms, including its expected UAAL amortization of 26 years, down from 40 years in 2010, are important given that the state's liability is currently high.

The funding level decreased steadily through 2012 from a high of more than 95% in fiscal 2000. A lower funded ratio is partly due to the state adopting a lower rate of return assumption (7.75%) beginning for fiscal 2011 compared with years prior, which assumed an 8% rate of return on pension system assets. Among the state's pension reforms was the creation, in fiscal 2011, of a new benefits tier for new members hired on or after July 1, 2012. The new benefits tier generally offers a lower level of benefits and requires higher employee contributions. As the mix of active plan members transition to the new tier, employee contributions will increase as the noncontributory plan members retire and are replaced with new members. Since 2012, strong investment gains in fiscal 2013 of 12.3% and of 17.4% in fiscal 2014 and the pension reforms, have improved the ERS' funded ratio. The ERS Board of Trustees has opted to lower the rate of return assumption because of future long-term projections by its investment consultant and actuary-- now on a path to decline to 7.50% from 7.75% by fiscal 2017. Although such a change puts additional negative pressure on the system's funded ratio, it reflects a more conservative orientation with regard to managing long-term pension liabilities.

OPEB risk assessment

Hawaii enacted legislation (Act 268) we view as significant and favorable that begins a program of prefunding the state's retiree health care benefit liability. Under the legislation, the state's prefunding of the OPEB liability ramps up to 100% of the annual required contribution (ARC) by fiscal 2019 from 20% of the ARC in fiscal 2015. To put the contribution differential into perspective, the state's pay-as-you-go cost in fiscal 2015 was $303 million while the full ARC stood at $718 million (down from over $1.0 billion prior to the reform legislation). While Act 268 called for the state to contribute $83 million above the pay-as-you-go amount, it actually contributed $117 million, which we believe reflects management's commitment to addressing the OPEB liability.

By adopting the higher funding trajectory, the EUTF's actuary incorporated a higher discount rate to measure the state's liability. This had the effect of lowering the state's estimated unfunded OPEB liability to $8.5 billion from $13.6 billion, or almost 40%, when applied actuarially to fiscal 2013.

In general, we view the state's willingness to begin confronting its OPEB liability as favorable. We have previously noted that, at $13.6 billion as of fiscal 2012 or $9,770 per capita (2012 population estimates), the state's OPEB liability poses a risk to the state's long-term credit quality. The new legislation, despite it not resulting in an immediate improvement to our rating on the state, is beneficial to our view of its credit quality.

On a four-point scale in which '1' is the strongest, we have assigned a score of '3.3' to Hawaii's debt and liability profile.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of October 9, 2015)		
Hawaii GO		
Long Term Rating	AA/Stable	Affirmed
Hawaii COPs ser 2009A		
Long Term Rating	AA-/Stable	Affirmed
Hawaii GO (wrap of insured) (AMBAC & AGM) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Hawaii GO (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Hawaii GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Hawaii GO (FGIC) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Hawaii GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Hawaii GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Hawaii GO (MBIA) (National) & (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.